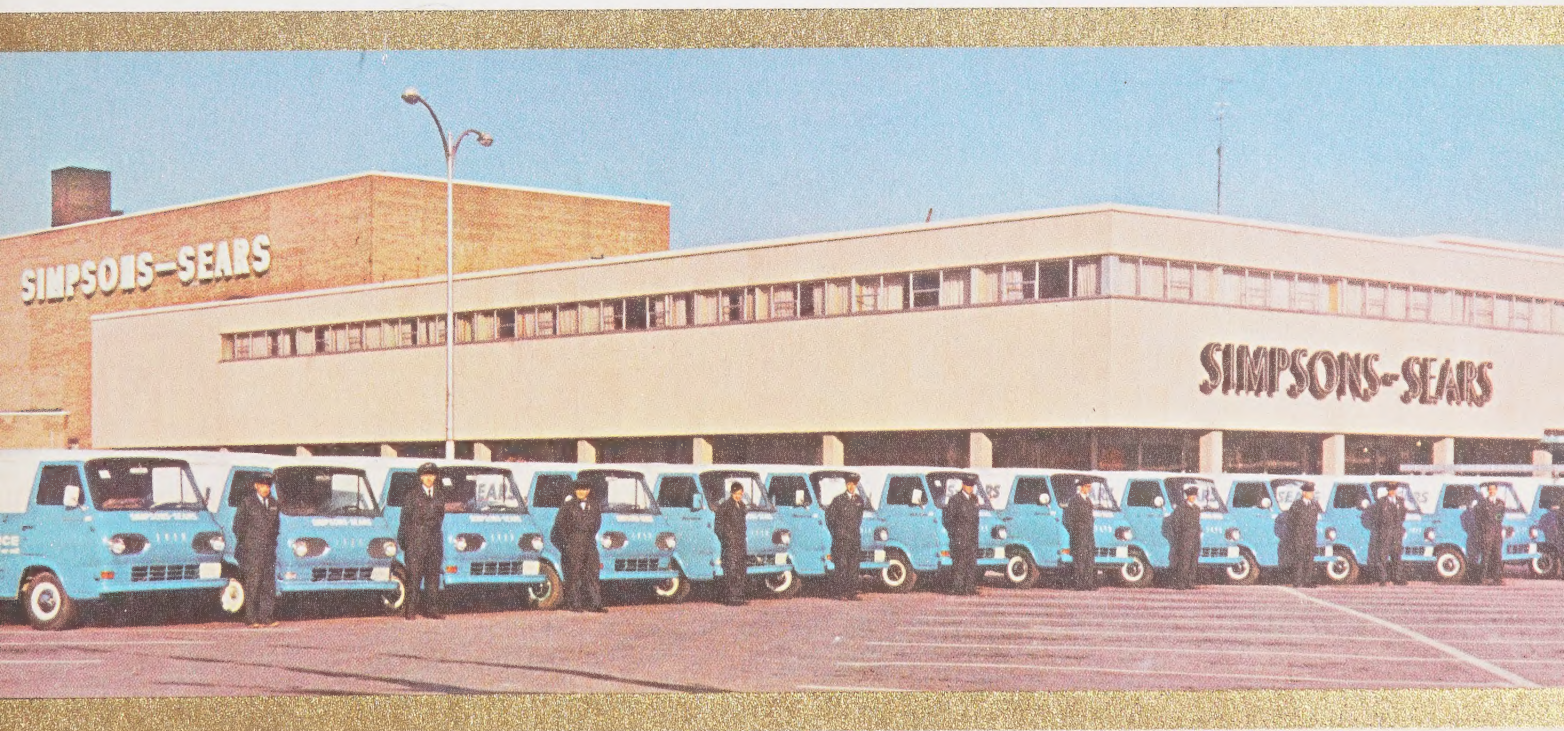


AR21

SIMPSON-SEARS LIMITED

annual report 1965



SIMPSON-SEARS LIMITED

directors

CROWDUS BAKER	GORDON M. GRAHAM
HOWARD A. BENTHIN	CHARLES L. GUNDY
EDGAR G. BURTON	JOHN C. PORTER
G. ALLAN BURTON	WILLIAM P. SCOTT
JAMES W. BUTTON	GEORGE H. STRUTHERS
AUSTIN T. CUSHMAN	NORMAN C. URQUHART
JOHN F. GALLAGHER	ROBERT E. WOOD

officers

GORDON M. GRAHAM <i>Chairman of the Board and Chief Executive Officer</i>	JAMES W. BUTTON <i>President</i>
JACK C. BARROW <i>Executive Vice-President</i>	MORGAN REID <i>Vice-President, Planning and Development</i>
JAMES D. IRVING <i>Vice-President, Merchandising</i>	FREDERICK R. SOUTHMAYD <i>Vice-President, Finance</i>
EDWARD A. PICKERING <i>Vice-President, Personnel</i>	
JAMES F. ANDERSON <i>Treasurer</i>	JOSEPH R. O'KELL <i>Secretary</i>

head office

108 MUTUAL STREET, TORONTO 2, CANADA

transfer agent and registrar

THE ROYAL TRUST COMPANY, TORONTO, ONT.; MONTREAL, P.Q.

HIGHLIGHTS

	1965	1964
Net sales - - - - -	\$351,708,203	\$315,134,844
Net earnings - - - - -	8,809,617	8,345,294
Per share - - - - -	.65	.62
Dividends to shareholders - - - - -	4,055,377	3,601,076
Per share - - - - -	.30	.26 $\frac{2}{3}$
Shareholders' equity (book value end of year) - - - - -	89,929,358	84,440,599
Per share - - - - -	6.64	6.25
Municipal realty and business taxes - - - - -	2,769,457	2,507,864
Federal and provincial income taxes - - - - -	8,855,000	8,535,000
Provision for depreciation - - - - -	2,510,152	2,365,764
Contribution to Simpsons-Sears Profit Sharing Retirement Fund - - - - -	1,731,884	1,669,974
Capital expenditures - - - - -	7,160,049	5,897,804

SIMPSONS-SEARS LIMITED

1965 ANNUAL REPORT FROM THE DIRECTORS

TO THE SHAREHOLDERS

In 1965 your Company again achieved record sales and profits.

Consolidated net sales for the year reached a new high of \$351,708,203, an increase of more than \$36,000,000 or 11.6% over 1964. Consolidated net earnings in 1965, after providing for all costs of doing business including depreciation, profit sharing and taxes, increased to \$8,809,617 from \$8,345,294 in 1964.

Earnings for the year amounted to 65 cents per share compared with 62 cents per share in 1964. Dividends of 30 cents per share were paid to shareholders during 1965 compared with 26 $\frac{2}{3}$ cents per share paid in the previous year.

Shareholders' equity at year end amounted to \$89,929,358 or \$6.64 per share, while a year earlier it totalled \$84,440,599 and \$6.25 per share.

Capital expenditures on plant and equipment during the year amounted to \$7,160,049 an increase of 21.4% over \$5,897,804 in the previous year.

Total assets at the end of 1965 were \$268,007,969 compared with \$233,847,572 a year earlier and working capital of \$104,567,924 was up from \$88,710,584 the previous year.

SIMPSONS-SEARS PROFIT SHARING RETIREMENT FUND

In 1965 the Company contribution totalled \$1,731,884 in accordance with the established provisions of the fund. This is an increase from \$1,669,974 in 1964. Members of the fund had to their credit \$20,065,317

at January 5, 1966 compared with \$17,704,633 a year earlier.

When the Plan of Simpsons-Sears Profit Sharing Retirement Fund was amended in 1962, the scale of Company contribution established a liberal basis for providing employee retirement income and this is considered to be the maximum that the Company can spend for that purpose. Accordingly on January 1, 1966, the Plan of the Fund was integrated with the Canada Pension Plan and the Quebec Pension Plan at no additional cost to the Company for retirement allowances.

DEVELOPMENTS AND EXPANSION

Simpsons-Sears non voting Class "A" Shares were listed on the Toronto and Montreal Stock Exchanges April 5, 1965 and satisfactory trading has been maintained since that time.

Allstate Insurance Company of Canada and Allstate Life Insurance Company of Canada, in which your company acquired a 25% equity interest in 1964 are making excellent progress, exceeding all initial forecasts and expectations.

RETAIL AND MAIL ORDER EXPANSION

Your Company continued to expand its physical facilities in the past year. A full-line store was opened in Kitchener, Ontario, last August, while a second major retail unit in Calgary, Alberta, began serving customers in October, 1965. In the current year, a large department store will be opened in St. Catharines, Ontario. Future plans provide for a

second store in Ottawa and a third, enlarged and re-located unit, in Edmonton, during 1967. Arrangements have also been completed for the construction of a full-line department store in the redevelopment area of downtown Saskatoon, Saskatchewan. This store will open in 1968.

The retail expansion program of your Company is long-term and orderly. Various sites in urban areas across the country are currently under consideration in its further development.

During 1965, the continued growth in the Catalogue business necessitated an addition to our plant in Metropolitan Vancouver. It was also found necessary to enlarge our Toronto distributing facilities and construction commenced before the end of the year.

OFFICERS AND DIRECTORS

We were saddened by the death of John S. D. Tory, one of our Directors, on August 27, 1965. As legal counsel, the late Mr. Tory contributed greatly to the establishment of the Company in 1952 and 1953 and his advice and assistance proved invaluable during the developing years of your Company.

He was succeeded on the Board by Mr. J. C. Porter, a Senior Officer and Director of Simpsons, Limited.

APPRECIATION

Your Directors recognize that the strength of your Company lies in the abilities and devotion of those who carry out its operations. To all those who made a contribution towards the year's results, we express our sincere appreciation.

The continued co-operation of our associates in Simpsons, Limited and Sears, Roebuck and Co. also played an important part in the success of the year's operation.

OUTLOOK

We enter 1966 on a buoyant note. Consumer income and spending continue to be strong. Although there are some signs of stress as the economy approaches capacity, the outlook generally remains good. With the strengths that have been built into your Company through the improvement of facilities to serve our customers, and in the skills of management and employees, we look forward to continued successful operation and growth.

On behalf of the Board

March 18, 1966



Chairman



President

SIMPSON-SEARS LIMITED *and subsidiary companies*

ASSETS

	AT FISCAL YEAR-END	
	JANUARY 5, 1966	JANUARY 6, 1965
CURRENT ASSETS:		
Cash on hand and in banks - - - - -	\$ 4,064,250	\$ 3,452,616
Government of Canada bonds, at cost - - - - -	77,950	77,950
Trade and other accounts receivable (Note 1) - - - - -	134,542,351	116,974,580
Inventories valued at the lower of approximate cost or market - - - - -	63,899,789	56,206,216
	<u>202,584,340</u>	<u>176,711,362</u>
PREPAID CHARGES:		
Departmental improvements, catalogue expenditures, unexpired insurance premiums and other expenses paid in advance - - - - -	8,106,193	6,218,614
NOTES RECEIVABLE:		
On sales of Class A shares of Simpsons-Sears Limited to employees of the Company and to employees of associated companies - - - - -	953,136	1,249,269
INVESTMENTS AND ADVANCES, at cost - - - - -	<u>7,048,712</u>	<u>4,947,655</u>
CAPITAL ASSETS, at cost:		
Land and buildings - - - - -	46,161,638	43,815,889
Equipment and fixtures - - - - -	23,090,965	19,256,372
	69,252,603	63,072,261
Less—Accumulated depreciation - - - - -	21,223,836	19,432,999
	<u>48,028,767</u>	<u>43,639,262</u>
UNAMORTIZED BOND AND DEBENTURE DISCOUNT AND EXPENSE - - - - -	1,286,821	1,081,410
	<u>\$268,007,969</u>	<u>\$233,847,572</u>

CONSOLIDATED BALANCE SHEET

LIABILITIES

AT FISCAL YEAR-END
JANUARY 5, 1966 JANUARY 6, 1965

CURRENT LIABILITIES:

Demand and short term notes (Note 2) - - - - -	\$ 65,465,600	\$ 59,025,000
Accounts payable - - - - -	17,638,345	14,736,528
Accrued wages, rent, interest, etc. - - - - -	7,868,500	6,544,811
Income and other taxes - - - - -	5,312,087	6,024,465
Contribution payable to Simpsons-Sears Profit Sharing Retirement Fund - -	1,731,884	1,669,974
	<u>98,016,416</u>	<u>88,000,778</u>
LONG TERM DEBT (Note 3) - - - - -	75,259,195	56,863,195
DEFERRED INCOME TAXES (Note 4) - - - - -	4,803,000	4,543,000
	<u>178,078,611</u>	<u>149,406,973</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (Note 5):

Authorized—

1,800,000 Class A shares of no par value
6,000,000 Class B shares of no par value
6,000,000 Class C shares of no par value

Issued—

1,544,435 Class A shares - - - - -	6,868,461	6,133,942
6,000,000 Class B shares - - - - -	20,000,000	20,000,000
6,000,000 Class C shares - - - - -	20,000,000	20,000,000
	<u>46,868,461</u>	<u>46,133,942</u>
EARNINGS EMPLOYED IN THE BUSINESS - - - - -	43,060,897	38,306,657
	<u>89,929,358</u>	<u>84,440,599</u>
	<u>\$268,007,969</u>	<u>\$233,847,572</u>

Approved on behalf of the Board G. M. GRAHAM, Director J. W. BUTTON, Director

SIMPSON-SEARS LIMITED *and subsidiary companies*

CONSOLIDATED STATEMENT OF EARNINGS

	FOR FISCAL YEAR ENDED	
	JANUARY 5, 1966	JANUARY 6, 1965
Net sales - - - - -	\$351,708,203	\$315,134,844
Other income - - - - -	352,199	147,095
	<u>352,060,402</u>	<u>315,281,939</u>
DEDUCT:		
Cost of merchandise sold and all expenses, except the items shown below - -	320,789,026	286,673,151
Provision for depreciation - - - - -	2,510,152	2,365,764
Interest on bonds and debentures (including amortization of discount and expense) - - - - -	4,051,787	3,415,883
Other interest - - - - -	2,543,479	1,769,009
Municipal realty and business taxes - - - - -	2,769,457	2,507,864
Contribution to Simpsons-Sears Profit Sharing Retirement Fund - - - - -	1,731,884	1,669,974
	<u>334,395,785</u>	<u>298,401,645</u>
Earnings before provision for income taxes - - - - -	17,664,617	16,880,294
Provision for income taxes (Note 4) - - - - -	8,855,000	8,535,000
NET EARNINGS FOR THE FISCAL YEAR - - - - -	<u>\$ 8,809,617</u>	<u>\$ 8,345,294</u>

CONSOLIDATED EARNINGS EMPLOYED IN THE BUSINESS

	FOR FISCAL YEAR ENDED JANUARY 5, 1966
Balance at beginning of year - - - - -	\$ 38,306,657
Net earnings for the fiscal year - - - - -	8,809,617
	<u>47,116,274</u>
Deduct:	
Dividends paid (\$.30 per share) - - - - -	4,055,377
BALANCE AT END OF YEAR - - - - -	<u>\$ 43,060,897</u>

SOURCE AND APPLICATION OF FUNDS

	FOR FISCAL YEAR ENDED	
	JANUARY 5, 1966	JANUARY 6, 1965
SOURCE OF FUNDS:		
Net earnings for the year - - - - -	\$ 8,809,617	\$ 8,345,294
Non-cash charges deducted in arriving at net earnings:		
Depreciation - - - - -	2,510,152	2,365,764
Deferred income taxes - - - - -	260,000	(100,000)
Amortization of bond and debenture discount and expense - - - - -	95,456	87,001
Funds provided from operations - - - - -	11,675,225	10,698,059
Proceeds from sale of bonds and debentures - - - - -	19,699,133	—
Receipts on sales of Class A shares - - - - -	1,030,652	310,831
Disposal of capital assets - - - - -	260,392	190,037
	<u>32,665,402</u>	<u>11,198,927</u>
APPLICATION OF FUNDS:		
Expenditures for capital assets - - - - -	7,160,049	5,897,804
Increase in prepaid charges - - - - -	1,887,579	1,183,831
Increase in investments and advances - - - - -	2,101,057	3,592,764
First mortgage bonds purchased for sinking fund - - - - -	1,604,000	1,485,000
Dividends to shareholders - - - - -	4,055,377	3,601,076
	<u>16,808,062</u>	<u>15,760,475</u>
Resulting in an increase (decrease) in working capital of - - - - -	15,857,340	(4,561,548)
Working capital at beginning of year - - - - -	88,710,584	93,272,132
WORKING CAPITAL AT END OF YEAR - - - - -	<u>\$104,567,924</u>	<u>\$ 88,710,584</u>

SIMPSON-SEARS LIMITED *and subsidiary companies*

NOTES TO FINANCIAL STATEMENTS

	JANUARY 5, 1966	JANUARY 6, 1965
1 TRADE AND OTHER ACCOUNTS RECEIVABLE:		
Customer instalment accounts receivable - - - - -	\$132,067,198	\$115,853,723
Miscellaneous accounts receivable - - - - -	8,316,129	6,937,644
	<u>140,383,327</u>	<u>122,791,367</u>
Less—Allowance for doubtful accounts and unearned service charges - - - - -	5,840,976	5,816,787
	<u>\$134,542,351</u>	<u>\$116,974,580</u>
2 DEMAND AND SHORT TERM NOTES: These notes include at January 5, 1966 demand notes of \$20,525,000 payable to banks secured by the pledge of Secured Debentures Series A of Simpsons-Sears Acceptance Company Limited.		
3 LONG TERM DEBT:		
Simpsons-Sears Limited First Mortgage Bonds	JANUARY 5, 1966	JANUARY 6, 1965
4¾ % Series "A" maturing April 1, 1973 - - - - -	\$ 7,750,000	\$ 8,500,000
4½ % Series "B" maturing April 1, 1979 - - - - -	8,125,000	8,750,000
5⅞ % Series "C" maturing August 15, 1985 - - - - -	10,000,000	—
	<u>25,875,000</u>	<u>17,250,000</u>
Less—First Mortgage Bonds purchased and held for sinking fund requirements - -	495,500	266,500
	<u>25,379,500</u>	<u>16,983,500</u>
Simpsons-Sears Acceptance Company Limited Secured Debentures		
6¾ % Series B maturing February 1, 1980 - - - - -	20,000,000	20,000,000
5⅞ % Series C maturing February 1, 1980 (U.S. \$5,000,000) - - - - -	4,879,695	4,879,695
5¾ % Series D maturing July 1, 1981 - - - - -	15,000,000	15,000,000
5½ % Series E maturing March 1, 1985 - - - - -	10,000,000	—
	<u>49,879,695</u>	<u>39,879,695</u>
	<u>\$ 75,259,195</u>	<u>\$ 56,863,195</u>

The amount of \$25,875,000 shown above for First Mortgage Bonds is after deducting bonds of the principal amount of \$1,375,000 which have been purchased and tendered to the trustee in satisfaction of the sinking fund payments due April 1, 1966.

Since January 5, 1966 Simpsons-Sears Acceptance Company Limited has issued and sold \$10,000,000 principal amount of 6¼ % Secured Debentures Series F.

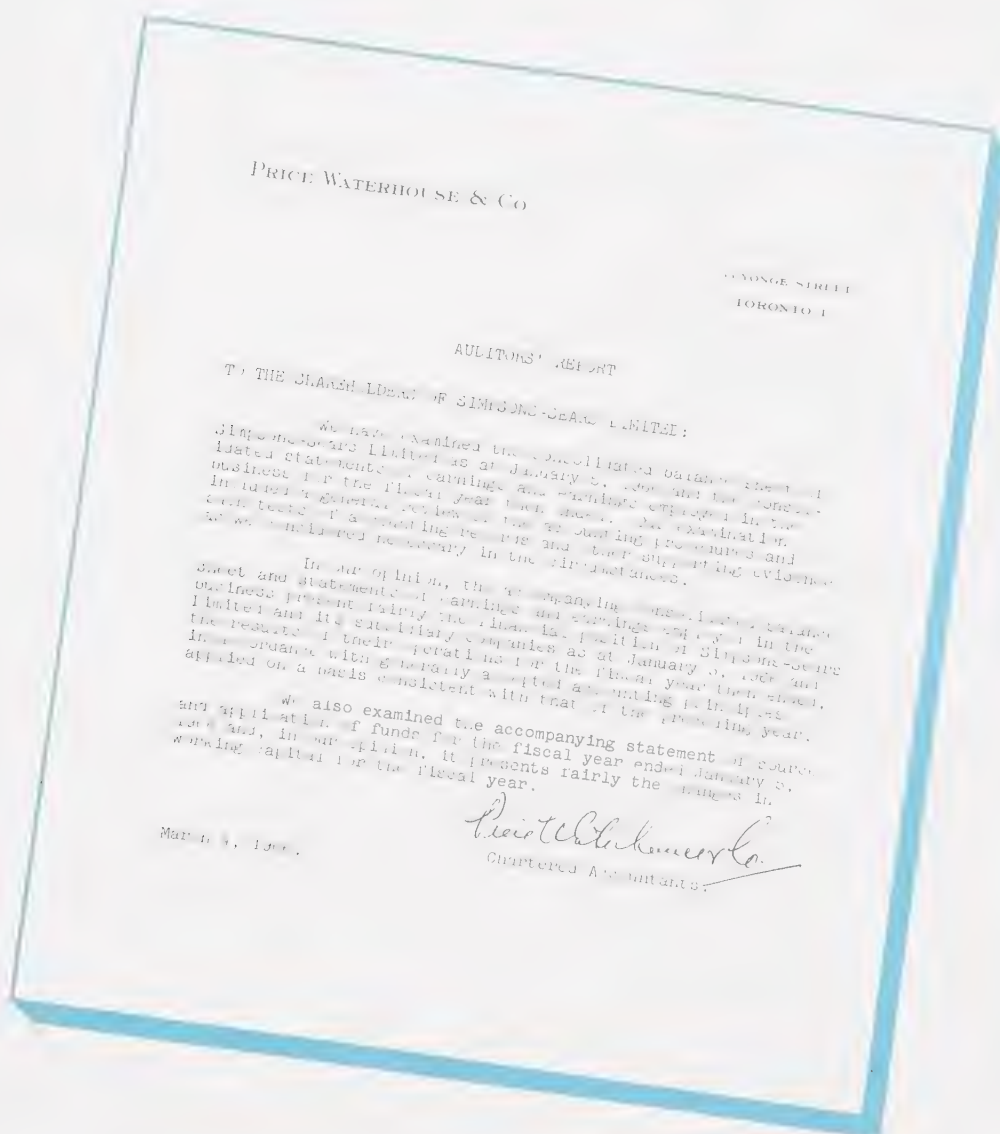
- 4 DEFERRED INCOME TAXES: To January 5, 1966 depreciation deductible for tax purposes has exceeded the normal depreciation recorded in the accounts. Amounts equivalent to the resulting reductions in income taxes currently payable have been charged to earnings as part of the provisions for income taxes and set aside on the balance sheet as deferred income taxes.

5 CAPITAL STOCK: During the fiscal year ended January 5, 1966, 40,000 Class A Shares were issued to Simpsons-Sears Profit Sharing Retirement Fund for \$734,063 and under the terms of the Employees' Stock Option Plan, adopted in 1965, 25 Class A Shares were issued for \$456. The Employees' Stock Option Plan provides that the option price shall be the market price of the shares on the day immediately preceding the date of grant and that the options may not be exercised later than ten years from date of grant and are generally exercisable in each of the first five years from the granting date at the rate of 20% per year. As at January 5, 1966 options were outstanding on 27,675 Class A Shares at \$18.25 per share. None of these options were held by officers or directors. In addition, as at January 5, 1966 Simpsons-Sears Profit Sharing Retirement Fund had been granted the right to subscribe from time to time for 13,000 Class A Shares at the market price of the shares on the day immediately preceding the date on which such right to subscribe is exercised.

The three classes of shares rank equally in all respects except that the Class A Shares are non-voting and are entitled to a non-cumulative preferential dividend of $8\frac{1}{3}\%$ per share in any year. After payment of a similar dividend to the holders of the Class B and Class C Shares all three classes rank equally as to dividends. The Class A Shares are listed on the Toronto and Montreal Stock Exchanges. The Class B Shares are owned by Simpsons, Limited and the Class C Shares by Sears, Roebuck and Co.

6 LONG TERM LEASES: Annual rentals under long term leases (leases for a period of more than five years) amount to approximately \$2,100,000. For the most part these rentals are on leases for periods of from 20 to 35 years.

7 REMUNERATION OF DIRECTORS: For the fiscal year ended January 5, 1966 the remuneration of directors, including salaries of officers who are also directors, amounted to \$243,890.



SIMPSON-SEARS LIMITED *and subsidiary companies*

TEN YEAR SUMMARY

RESULTS FOR THE YEAR (in thousands)	1965	1964	1963*
Net sales - - - - -	\$351,708	\$315,135	\$282,042
Net earnings before income taxes - - - - -	17,665	16,880	14,750
Provision for income taxes - - - - -	8,855	8,535	7,300
Net earnings - - - - -	8,810	8,345	7,450
Dividends to shareholders - - - - -	4,055	3,601	2,911
Provision for depreciation - - - - -	2,510	2,366	2,365
Capital expenditures - - - - -	7,160	5,898	3,888
YEAR-END POSITION (in thousands)			
Inventories - - - - -	63,900	56,206	47,474
Working capital - - - - -	104,568	88,711	93,272
Land, buildings and equipment—net - - - - -	48,029	43,639	40,297
Long term debt - - - - -	75,259	56,863	58,348
Shareholders' equity (book value) - - - - -	89,929	84,441	80,575
PER SHARE OF CAPITAL STOCK (in dollars)			
Net earnings - - - - -	.65	.62	.55
Dividends to shareholders - - - - -	.30	.26 ² / ₃	.21 ² / ₃
Shareholders' equity (book value) - - - - -	6.64	6.25	5.98

*53 weeks

1962	1961	1960	1959	1958	1957*	1956
\$263,690	\$259,170	\$243,766	\$236,832	\$211,729	\$198,323	\$175,251
12,383	13,345	12,351	12,850	11,465	5,776	3,043
6,285	6,750	6,200	6,630	5,438	2,622	1,547
6,098	6,595	6,151	6,220	6,027	3,154	1,496
2,884	2,192		—	—	—	—
2,402	2,099	2,095	2,011	1,960	1,769	1,652
3,617	1,260	1,969	2,468	4,321	5,529	2,704
45,402	45,259	42,112	42,388	35,278	35,897	34,027
87,038	85,715	66,067	38,143	32,174	24,622	15,862
42,323	41,084	42,025	43,176	46,218	46,852	46,113
58,903	59,949	46,174	26,638	30,683	32,303	27,553
75,409	71,079	66,560	59,737	52,815	46,395	43,007
.46	.50	.47	.48	.47	.25	.12
.21 $\frac{2}{3}$	.16 $\frac{2}{3}$		—	—	—	—
5.64	5.40	5.06	4.60	4.12	3.65	3.40

SIMPSON-SEARS LIMITED

RETAIL STORES AND CATALOGUE OPERATIONS

maritime

RETAIL STORES

Fredericton, N.B.	Saint John, N.B.	St. John's, Nfld.
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CATALOGUE

Maritime Catalogue Order Centre, Halifax, N.S.

57 Catalogue Sales Offices

central

RETAIL STORES

Quebec City, P.Q.	Belleville, Ont.	Dundas, Ont.
Guelph, Ont.	Hamilton, Ont.	Kingston, Ont.
Ottawa, Ont.	Kitchener, Ont.	Port Arthur, Ont.
Sarnia, Ont.	Peterborough, Ont.	Sault Ste. Marie, Ont.

CATALOGUE

Central Catalogue Order Centre, Toronto, Ont.

174 Catalogue Sales Offices

midwestern

RETAIL STORES

Winnipeg, Man.	Moose Jaw, Sask.	Prince Albert, Sask.
Calgary, Alta.—2 stores	Edmonton, Alta.—3 stores	

CATALOGUE

Midwestern Catalogue Order Centre, Regina, Sask.

67 Catalogue Sales Offices

pacific

RETAIL STORES

Burnaby, B.C.	Nanaimo, B.C.	Richmond, B.C.
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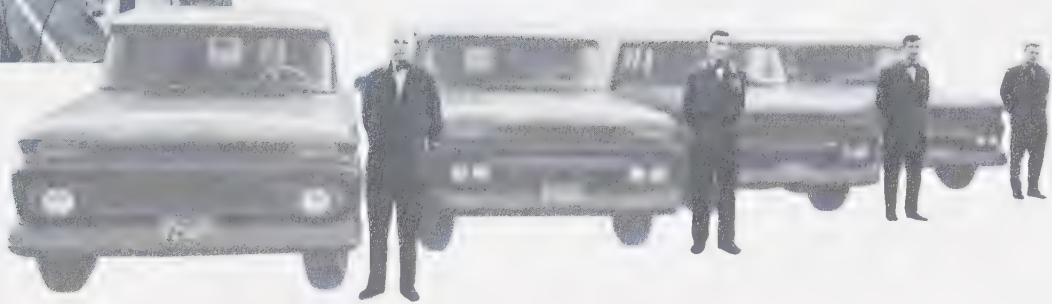
CATALOGUE

Pacific Catalogue Order Centre, Vancouver, B.C.

46 Catalogue Sales Offices



Highly trained professional servicemen provide top quality maintenance, repairs and installation on the products that we sell.



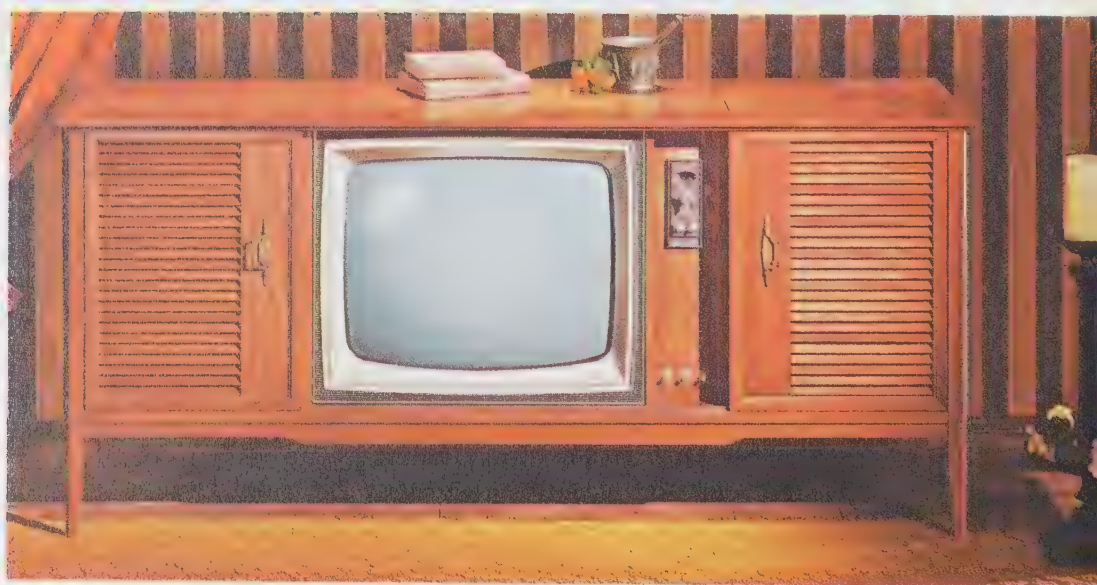
Well selected quality merchandise is offered to Canadians from coast to coast through twenty-six modern department stores, three hundred and forty-four catalogue sales offices and four large distributing centres located in Halifax, Toronto, Regina and Vancouver.



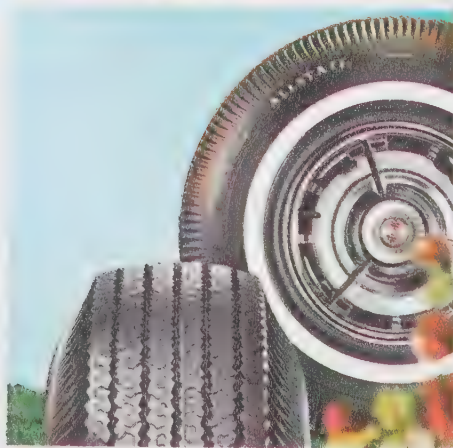
Simpsons-Sears' creative product development provides exclusive quality merchandise offered through our catalogues and modern, colorful retail facilities.



Craftsman commercial quality tools are unconditionally guaranteed.



Silvertone electronic products offer the finest in styling and home entertainment.



Allstate tires are professionally tested at the rate of half a million miles a month.



*Fashionable
apparel "shops"
in our Kitchener,
Ontario, store
display tastefully
styled merchandise
at attractive
prices.*



GORDON M. GRAHAM

After 38 years of service, Mr. Gordon M. Graham, Chairman of the Board of Directors and Chief Executive Officer, having reached retirement age, is retiring in accordance with Company policy following the annual meeting of shareholders in April 1966.

Mr. Graham joined the Robert Simpson Company in 1928 and in the following 25 years held many important posts leading to Vice-President, Merchandising of the Mail Order Division.

When Simpsons-Sears was formed in 1953 Mr. Graham was appointed Vice-President, Merchandising of the new Company. He became President and Chief Executive Officer in 1957 and Chairman of the Board of Directors in 1962.

Mr. Graham's warm sense of human relations combined with his merchandising skills provided strong inspirational leadership in the development of Simpsons-Sears, and the knowledge of his planned retirement this year was received with regret by both the Directors and the staff.

The Directors take this opportunity to recognize the valuable contribution that Mr. Graham has made over his long period of service and to extend best wishes to him on his retirement.

His successor will be announced at the meeting of shareholders in April.

